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Author:

**American Management  
Association**

Title:

**Wage payment - in cash  
or by check**

Place:

**New York**

Date:

**[1923]**

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American management association, c1923.

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no. 6)

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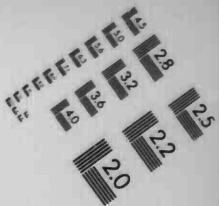
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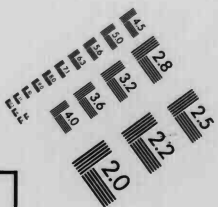
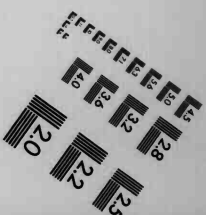


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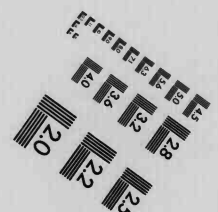
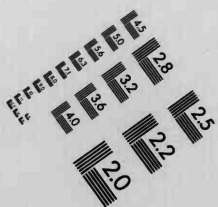
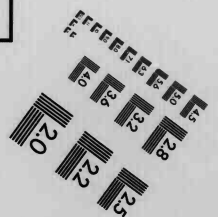
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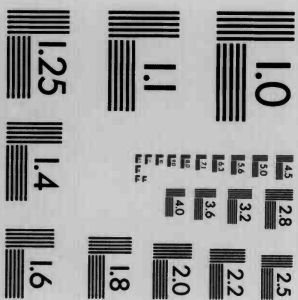
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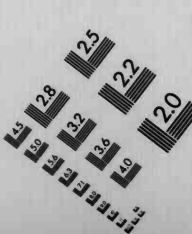
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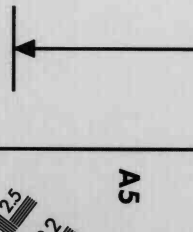
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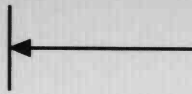
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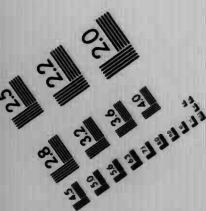
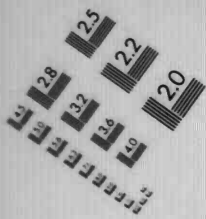
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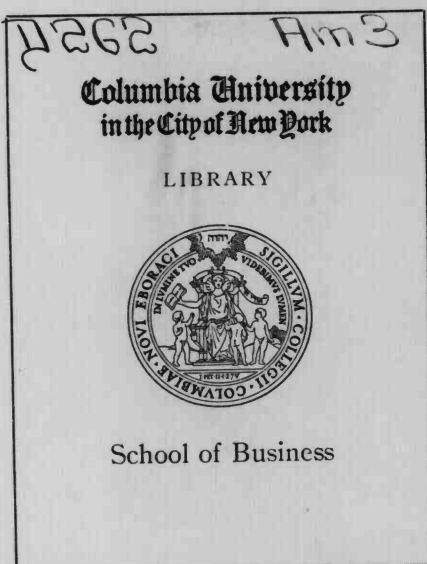
WAGE PAYMENT \_ IN CASH

OR BY CHECK

SURVEY REPORT NO. 6

AMERICAN MANAGEMENT ASSOCIATION





[illegible]

MAR 25 1927

WAGE PAYMENT - IN CASH OR BY CHECK

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## AMERICAN MANAGEMENT ASSOCIATION

TELEPHONE BARCLAY 0484

MANAGING DIRECTOR  
W. J. DONALD

20 VESEY STREET

NEW YORK, N. Y.

Devoted exclusively to the consideration of the human factor in commerce and industry

August 1, 1923.

### TO COMPANY MEMBERS:

Gentlemen:

The question of the advisability of paying employees by check has recently been brought to the fore. This report, prepared by the staff, has had the criticism and advice of both Dr. R. S. Quinby, Service Manager, and R. H. Pattershall, Head of the Payroll Department of the Hood Rubber Company.

The information and evidence which we have secured lean very strongly toward a continuation of payment in cash, especially for employees receiving less than \$2,000 per year. However, we have tried to give as much information as possible regarding the companies which are now paying by check.

Sincerely yours,

*W. J. Donald*  
Managing Director

WJD.P

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WAGE PAYMENT --- IN CASH OR BY CHECK.

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C.C. 26 June 1924  
O.S.P. 30

#### WAGE PAYMENT --- IN CASH OR BY CHECK.

An important change seems to be taking place in the manner of paying the wages of working men. Whether that change is good or bad, whether it is advisable for the employer or agreeable to the employee is, therefore, a matter for careful consideration. There seems to be a disposition to consider the subject exclusively from the point of view of payroll safety but it is much wiser to consider it from a somewhat broader aspect since the employer has to make and the worker to receive approximately fifty payments in the course of a year.

A difference of even one cent in the cost of making the payment mounts up to no inconsiderable total where large numbers are employed and if the method is more costly and inconvenient to the employer and more troublesome to the worker the aggregate of both is bound to have no small effect on the smooth running of the plant. Moreover, one principle of modern management is that where an act is repetitive, though not necessarily frequent, it should be studied intensively from every viewpoint in order to ascertain the one best way.

#### THE PURPOSE OF DISCUSSING THE SUBJECT

The purpose in view is to analyze the points which need consideration in order to determine whether the interests of employer and worker as a whole are best served by the adoption of the check, instead of the cash, form of payment.

Promptness, simplicity and cost are the points which first occur to the mind but the employer has an interest in wages even after they have been paid. No great stretch of imagination is required to see that an unwise expenditure of wages by the worker means that he has secured a correspondingly poor return for his effort and, whether just or not, the condition reacts on the employer. Hence, the employer is prompted in self defence, to aid the worker, as far as

circumstances permit, in spending wisely or in saving part of his wages. Obviously, too, the worker who is able to put something by each week is not alone getting a living but a saving wage and he thereby deprives himself of the argument that the amount received in his pay envelope is insufficient for his needs.

#### THE NATURE OF THE SUBJECT

Wages constitute, perhaps, the most absorbing topic in a worker's life. He gives as much thought to one dollar as the employer gives to the expenditure of a thousand. "It is what is in the pay envelope that counts" is not the whole truth. The kind of pay, the manner of payment, the expedition and accuracy with which the job is done are all of importance to the worker and generally very much more so than the average paymaster conceives. A check and cash may represent the same amount of money but there is an element of truth in the saying that, "He who gives quickly gives twice" and a check is not nearly as useful or as promptly usable as cash nor has it the same significance to the ordinary workman. Mechanically, of course, it is impossible to pay wages when earned. The payroll has to be made up, the money has to be procured from the bank and delivered to the worker all of which takes time. Incidentally there is a saving in interest the longer the payment is delayed. This saving, in a large establishment, might pay the salary of a clerk but the loss to the individual worker due to a few days' delay each week, in every payment, is often the difference between misery and comfort.

#### THE PRESENT SITUATION

The disposition to extend the method of payment by check to factory employees is somewhat of a new departure. Up to 1921 it was not only uncommon, but illegal in the State of New York, to pay by check



except in railroad work. Since then there have been so many cases of payroll robberies that employers have been forced to consider payment by check as a means of avoiding large money losses and the law has been modified accordingly.

Few of us revert to the stupendousness of the problem. The Fourteenth Census returns of 1919 gives the following particulars respecting manufactures in New York State alone:-

	Number	Dollars.
Establishments	49,330	
Persons engaged	1,524,761	
Proprietors and firm members	49,484	
Salaried employees	247,187	\$513,547,903
Wage earners	1,228,130	\$1,458,206,804
Total	1,524,761	\$1,971,754,707

Assuming a weekly settlement there has been the enormous total of 63 million individual payments in the course of a year and, hence, if there is to be a general change from one form of payment to another it is decidedly necessary to consider all the pertinent facts.

#### TYPES OF PAYMENT

There are practically only two types of payment and their application, hitherto, has been generally clearly defined. The salaried employee is paid by check and the wage earner is paid in cash. The salaried man, because his remuneration is substantial, has a bank account and, being literate and having more freedom of action than the wage earner, can either mail the check to the bank or deliver it in person. He would find it inconvenient, if not actually unsafe, to receive his salary in cash. Anyway most of his expenditure is done on a credit basis. But, whatever be the feeling of the salaried man on the subject it is common experience that no working man ever objects to being paid in cash, whether in the form of bills or coin. He will take bills, silver or gold if offered without objection. Since the

war, however, payment in gold is exceptional and, although the Treasury is said to be overburdened with that metal, its circulation is small. Some employers, however, who wish to encourage savings and to distinguish between regular wages and bonus, pay in gold.

#### THE TIME AND PLACE OF PAYMENT

The ideal conditions are to pay money when due as promptly, conveniently and economically as possible. The importance of the time factor is shown by the report of a recent strike of 1,500 men of the Jeddo Highland Coal Company on their repeated demand that the pay hour be changed from 3:30 to 2:30 to accommodate men quitting before the end of the eight hour shift

Since the payroll is made up in the plant, time is saved by paying on the premises unless there is some very good reason for paying elsewhere. The important point in this matter is, "on whose time is the money to be paid?" Shall the mountain of workmen go to the paymaster Mahomet or the reverse? There are only two alternatives; to pay on company time or to pay on employee's time -- that is, after work. Payment by cash or check may be either or both ways, there being only one distinction; when checks are used the employee must, as a rule, go to the bank to get it cashed.

In some plants the money or check, as the case may be, is actually brought to the worker at his work but the usual practice is to have him attend at the paymaster's office which is placed at the most central point possible. The paymaster may have an office in each department or he may move from one department to another with his pay wagon. A critical study of the time lost in the mere operation of getting money from the paymaster into the hands of the worker will often suggest economies that are worth while.

The following summarizes these points:-

Payment in cash.

- 1.-On the job; that is, during working hours and at work.
- 2.-Off the job; after working hours.

Payment by check:

- 1.-On the job.
- 2.-Off the job:
  - a.-In the plant.
  - b.-At the bank, or elsewhere.

#### CAUSES OF PAYMENT BY CHECK

One consideration, perhaps, alone prompts a change in the manner of payment. It has seemed impossible, even in large metropolitan areas, to protect cash while being conveyed from the bank to the establishment. The newspapers, for the past few years, have recorded in lurid headlines frequent cases of hold-ups, but the relation between the amount thus lost and the huge total safely carried has been overlooked. Nearly a billion and a half of hard cash has gone from the banks to the manufacturers of New York and possibly not two-thousandths of one percent has been stolen.

In New York the plan of paying by check has been stimulated by two recent events. In the first place, it has recently been legalized; in the second, the Mayor of New York addressed a letter on April 11, 1922, to the Police Commissioner complaining that it was not humanly possible to watch the movements of every messenger carrying cash payrolls and recommending the use of checks in consequence.

#### THE EXTENT OF PAYMENT BY CHECK

Payment by check is, of course, the usual practice for salaried employees who, as a rule have bank accounts and to whom payment in cash would be inconvenient. But, salaried employees are only a fifth of the total. Of the remaining four-fifths but few industrial workers, up to lately, have been paid in this way.

In New York City by far the greater majority of municipal employees are paid by check since many of them are scattered over a wide area of the municipality. The Vitrolite Company of Chicago, the Detroit Piston Ring Company, Lever Brothers in England, pay all their factory employees by check and the Du Pont de Nemours Company, Inc., is said to be about to adopt the plan. The railroads, of necessity, pay their employees by check and there is some evidence that the practice is rapidly extending to the industrial worker.

Since the system of payment by check was legalized in New York, no less than 650 permits have been issued by the State Department of Labor up to the end of June, 1923. This, however, does not say that the practice has as yet come into extensive use but it is symptomatic that there is a wide interest in it and, undoubtedly, many of those who have secured permits will sooner or later take advantage of them.

#### SOME LEGAL ASPECTS

The usual practice, reinforced by law, has been that every incorporated manufacturing company should pay its employees weekly and in cash. Article 6, section 195 of the Labor Laws of the State of New York, amended to August, 1921, provides that an employer may pay his employees by check if he furnishes satisfactory proof to the commission of his financial responsibility and gives reasonable assurance that such checks may be cashed by employees without difficulty and for the full amount for which they are drawn. Further, the State Department of Labor furnishes employers, on request, with a form to be filled out, of which the following is a copy:-

FORM OF APPLICATION FOR PERMISSION TO PAY BY CHECK.

STATE OF NEW YORK  
DEPARTMENT OF LABOR

Name of firm or company Nature of business

Address

Name of President

Name of Secretary

Treasurer

When Incorporated? Are you rated in Bradstreet's or Dun's reports? (If not, please enclose your financial statement showing quick assets)

Give location of your establishments affected and the approximate number of employees in each

Give average amount of weekly pay-rolls in each establishment

Will checks be issued on local banks?

If check is not issued locally, will it be free of exchange?

Is bank located conveniently for the employees?

Will bank be open on evenings of pay day?

Can an employee, if he so desires, cash his check in your local office?

Will you provide other means for cashing checks where it may be done without expense or waste of time to the employee? In what manner?

Have you previously paid by check? If so, for what period.

Do your employees prefer to be paid their wages by check?

(Signature)

The difficulty experienced by employees in having checks conveniently cashed makes it desirable that they be paid in cash whenever possible. Please refer to Sections 195 and 196 of the Labor Law of 1921. If you prefer to pay by check please fill in this blank and a letter explaining your particular condition may be included.  
Address to

RICHARD J. CULLEN  
Deputy Industrial Commissioner,  
124 East 28th Street, New York City.

There are some exceptions to the rule that workers must be paid weekly. Companies operating steam surface railroads and State employees must be paid (at least) twice a month but, all other employees (meaning mechanics, workingmen or laborers) must be paid weekly.

#### POINTS TO BE CONSIDERED IN MAKING A CHANGE

Before making any change in the manner of paying employees it is advisable to consider the special circumstances in each case and whether the safety of the payroll or the convenience of the worker, for instance, is the most important.

If an establishment is far from the bank; if it is isolated, the risk of transporting cash is obviously greater than where the bank is adjacent and the establishment is in a thickly populated district. More important, perhaps, is the question; Where and when can the workers cash their checks? Significantly the State Department of Labor accepts the employer's opinion on this subject but it is quite possible that the worker might have a different view.

Usually the banks are open when the worker is at work, and closed at the only time which he has for going to the bank. This forces the worker to cash his check at a store and sometimes at a discount. Some banks are now open on Saturday till 3 P. M., and on other days till five in order to accommodate workers paid by check but this does not go far enough. On Saturday the bank official, as well as the worker, likes to enjoy the holiday and on other days very few workers finish till the time when the bank is closing its doors.

The most important consideration, however, is the personnel. If the percentage of skilled workers in a plant is high, if they are literate, if no other means of saving has been adopted, the argument of check versus cash is merely a matter of cost provided the workers do not object. Usually, however, there is a large percentage of foreign

born workers, unskilled and illiterate who get small wages, whose dwellings are widely scattered and far from the banks.

In plants where there is "Employee Representation" the question of cash or check payment would naturally be the subject of a vote and the result which might be expected would be an overwhelming preference for cash.

#### METHODS OF PAYMENT

##### Payment in cash.

The timekeeper, with the aid of the foreman, ascertains the number of hours worked, the rate to be paid and forwards the payroll, after certification, to the payroll department where the totals are calculated. The accounting department is then furnished with a summary and total. The payroll department next prepares vouchers or receipts and corresponding envelopes with number and amount together with a memorandum of the denominations required to put up the payroll. The former are distributed to the workers and the latter is given to the paymaster who procures a check from the treasurer and obtains the cash at the bank in the required denominations. If, when all the pay envelopes have been filled, there is a shortage or surplus, an error is apparent.

Distribution of the cash to each worker is the next step in the process. It may be "on the job" or immediately after work is done. In the first case men take time from their work while waiting to be paid off to the loss of the employer. In the second, the loss is on the worker. In each case the worker presents his signed card or receipt (previously distributed) to the pay clerk and, after identification, by the foreman, gets his wages.



## THE ADVANTAGE OF CASH PAYMENTS

It is obvious that payment in cash is simple, that generally workers need money in its most immediately negotiable form and that foreign born workers would not understand, and would greatly object to, any other form of payment. On the other hand there is the temptation to spend, and the possibility of robbery, as far as the worker is concerned, is only postponed or but slightly reduced in the case of check payment. Payment in cash may not be the best for the worker. There may be improvident men who cannot hold on to their money but the fact remains that any pay received by spenders in the form of a check will be converted into cash at the earliest possible moment and the ultimate result will be just the same as if the original payment had been in cash. Now that the saloon has ceased to exist one of the principal objections to payment in cash has been abolished.

If the consensus of opinion among workers is to be taken into consideration payment by check will not even need discussion. Employers as a rule have hitherto favored payment in cash. On this subject the paymaster of the D. F. Goodrich Company, says:- in Factory, March 15, 1921:-

"While I have never paid wages directly by check, I have had a very unusual opportunity, in meeting wage earners from every section of the country, to get first-hand information as to the various methods of handling and paying wages and it is the universal opinion, from the wage-earner's standpoint, that the most satisfactory method of paying is by currency.....

"Several years ago the Pennsylvania Railroad paid its employees by check and I was the local cashier. The only way in which the Second National Bank would cash the check was for the cashier to guarantee the first endorsement. More recently, when the Diamond Rubber Company paid by check certain banks refused to cash the checks because the employees were not depositors and the Diamond Rubber Company was not a customer of the bank. Grocery stores and other business houses refused on the same grounds.

"In summing up the results of my years of experience in dealing with men, getting insight into the conduct of their personal affairs which is denied to all but a very few, I unhesitatingly state that the first and greatest step towards promoting the welfare of our employees is paying them in currency.



"I am firmly convinced that nothing could be done which would so quickly nullify the years of patient effort that have been spent in securing the good will and loyalty of our employees as would a change from our plan of paying in currency to paying by check."

#### PROTECTION OF THE PAYROLL

The principal argument against payment in cash is the question of safety. It has already been suggested that the actual amount stolen, in proportion to the vast sum carried weekly to the plants from the banks, is very small indeed. Admitting, for the moment, that protection of the payroll is difficult, if not impossible, the alternative of payroll insurance must be considered.

For a rate varying from \$4.00 to \$6.00 per thousand of payroll a year the payroll may be insured and this rate may be reduced by the adoption of precautionary measures. For instance, an increase in the number of guards, the use of an automobile, the adoption of a protective wallet, its attachment to the person and the extension of the policy over a period of years, all procure a reduction in the rate of insurance. Thus, the cost of insurance will form but a slight percentage of the total payroll. The employer has already seen the advantage of fire and accident insurance. The only question is whether the premium charged is sufficiently low to make this form of protection worthwhile.

#### METHOD OF PAYMENT BY CHECK

In payment by check the procedure is much the same as in cash payment except that no money passes from the bank to the establishment and the onus of procuring cash is eventually placed on each worker. The employer sends to the bank for the necessary payroll drafts and gives them to the cashier who fills in the amount and distributes a check to each employee who signs it in presence of the paymaster and,

either takes the check to the bank and endorses it in the presence of the cashier or, if the bank is not near, cashes it at a store where he procures his supplies.

In some cases the display of an identification badge relieves the need for signature. Some banks encourage check payment because it may lead to saving but workers cannot save unless they are getting a relatively large income and then only in a rising market. In one bank where payment by check was undertaken a very embarrassing situation arose. When all the workers appeared at the cashier's window about the same time it looked so like a run on the bank that the president of the institution decided to discontinue the practice.

Some banks cannot legally, under their charter, accept the responsibility for delivering cash at the establishments of their clients since the law requires that business must be transacted at the bank and nowhere else. In order, however, to accommodate customers some banks relieve their depositors of the risk of transporting cash by means of a special payroll service. They provide the employer with special payroll checks which, when filled in, are payable at an assigned window in the bank or its branches up to 3:30 on Saturdays and 5:30 on the other days of the week.

The name of the company is printed on each check issued and a space is provided for the identification signature of the worker which should, of course, correspond with the signature on the back. The bank and each of its branches has signatures of the officials who sign the checks and forgery is thereby prevented. Banks, who are not limited by their charter to business on the premises, are now providing an armored car service to protect cash in transit.

The Vitrolite Company deposits a master check for the entire pay-

roll in a bank together with the names of the employees and the amount to be credited to each of their accounts. The Detroit Piston Ring Co. puts \$5.00 in each pay envelope and gives a check for the balance of the weekly wage.

Payment by check requires the signature of one, and sometimes two, responsible officials. Therefore, in the larger plants mechanical means are used to sign checks. A patented ten-pen machine, which can be hired for about \$700.00 a year, is used to sign checks at the rate of 4,000 an hour or about 30,000 a day; ten checks are signed as easily and as quickly as one in this way. A simple calculation determines whether the new or the old way pays best.

Payment by check has several advantages: It obviates possible loss of the payroll or the expense of insurance. It prevents workers from knowing the amount each receives and tends to promote thrift when times are prosperous and when the wage scale leaves some margin over living expenses. Where workers are isolated as in the case of outside workers, switchmen or municipal employees who might be robbed if paid in cash and who are not within the circuit taken by the paymaster, payment by check is obviously preferable. Moreover, it possibly saves time by eliminating the need of having the worker sign the payroll, for instance, and it avoids the errors attendant on payment in cash.

In payment by check the possibility of robbery is removed by abolishing the cause and the canceled voucher may be used as a means of detecting overpayments. In general it entails more work, is more costly, even allowing for payroll insurance, and takes more time than Payment by cash. It might involve some absence in order to have checks cashed since some workers could find no other way whereas if cash is paid on the job there is no excuse for absence. One company, by paying its employees in cash on Saturday, found a great reduction

in the number of absentees through this plan. If the convenience of employees, and their consequent good will, is of importance there will be little attempt to pay by check unless some special circumstances should demand it.

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